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ANNUAL REPORT TO STOCKHOLDERS OF
THE NATIONAL TOOL COMPANY - CLEVELAND
FOR THE YEAR ENDED DECEMBER 31, 1935.

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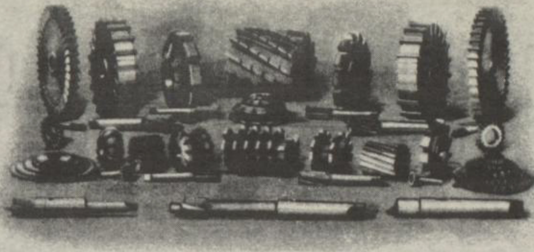
NATIONAL-CLEVELAND CUTTING TOOLS
GEAR AND MILLING CUTTERS
UNIVERSAL GEAR SHAPER CUTTERS
INTERCHANGEABLE COUNTERBORES
HOBS AND SPECIAL TOOLS
BRANCH OFFICES
CHICAGO, DETROIT, INDIANAPOLIS
PHILADELPHIA
CABLE ADDRESS
"NATOOLCO" CLEVELAND
W. U. CODE



NATIONAL-CLEVELAND MACHINE TOOLS
(SIMMONS METHOD)
UNIVERSAL GEAR SHAPER
SPUR GEAR GRINDING MACHINES
HELICAL GEAR GRINDING MACHINES
GEAR TESTING MACHINES
WORM WHEEL GENERATING MACHINES
STAGGERED TOOTH HELICAL GEAR
SHAPED CUTTER SHARPENING MACHINES
FLAT FACE HELICAL GEAR SHAPED
CUTTER SHARPENING MACHINES

THE NATIONAL TOOL COMPANY
NT
REG. TRADE MARK
GENERAL OFFICES & FACTORY
CLEVELAND, OHIO

May 26, 1936

To the Stockholders
The National Tool Company

I am enclosing copies of the Audit of Ernst & Ernst Company and a Report of A. J. Brandt, Inc., Industrial Management Engineers.

The Audit shows obligations of approximately $270,000, principal portion of which is current. Current obligations exceed current assets by approximately $32,000. The Company's plant, according to Engineer's report, requires an expenditure of $100,000 for rehabilitation and modernization to meet current competitive demands.

If the Company were able to raise the funds for plant modernization and meet current obligations, it would require (assuming a ten year liquidating period) an annual charge of approximately $39,000. This appears to be an impossible task because for the last 14 years the operations of the Company have not been profitable.

The large volume of business which we were offered this spring and could not get because of high manufacturing costs, is proof of the imperative need of modernizing the production equipment. Loss of this volume has given us three unprofitable months out of the first five of this year.

Ernst & Ernst and A. J. Brandt, Inc. show the condition and financial needs of your company to be far different from what your present management thought were the facts when it became your largest creditor.

It has of course been evident for a long time that the Common Stock was without value and the report

NT
The "Sterling" MARK OF QUALITY IN Cutting Tools

merely confirms that opinion. The value of the Preferred Stock will undoubtedly be a debatable problem and it is the suggestion of the present management that a Committee be formed by Preferred Stockholders for the purpose of consulting with the Secretary in reference to proposed reorganization plans. Unless a plan is worked out which protects the present creditors and provides for additional working capital, the Company will obviously be forced to eliminate all of the present stock interests.

THE NATIONAL TOOL COMPANY

By Leslie T. Jones.
Secretary

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REPORT OF ENGINEERS

A. J. BRANDT, INC.

CONSULTING AND MANAGEMENT ENGINEERS

Detroit, Michigan.
May 22nd, 1936.

The National Tool Company,
Cleveland, Ohio.

Gentlemen:- Attention - Mr. A. R. Glancy,
Chairman of the Board.

We respectfully submit herewith our recommendations and comments resulting from the observations and study we have made during the past few weeks of your company's operating activities. The essence of this report covers methods and procedures which, in our opinion, would expand sales, reduce manufacturing costs and improve your financial condition, in order to permit your company to manufacture profitably in competition.

We do not believe that your plant organization and finances are adequate at this time to undertake to expand your sales through manufacturing for sale either a line of machine tools or a standard line of drills, reamers and taps. Therefore, our recommendations for sales expansion covers only methods of increasing your cutting tool sales.

We are of the opinion that your manufacturing costs can substantially be reduced through improvement in your factory organization, manufacturing processes, production equipment and increased operating efficiency. Certain recommendations require a capital investment aggregating $65,150.00 for additional special machinery and equipment which we believe necessary to enable your company to secure the desired competitive manufacturing costs. Many changes in procedures are suggested in this report that not only reduces costs and safeguards your present quality but which, we believe, are necessary for a satisfactory operation of your company.

In conjunction with our comments and recommendations, we wish to refer you to a report on your financial position submitted by Ernst & Ernst under date of May 11th, 1936, which is attached as a supplement to our report.

We particularly wish to call your attention to page 18 of their report which shows a deficit balance on December 31, 1935, of $1,509,761.02. After this deficit is applied to the original capital investment of $1,640,400.00 there is left a balance of $130,638.98 to apply as the stockholders' equity in the business.

A further study of the analysis made by Ernst & Ernst of the $1,509,761.02 deficit balance shows that -

(1) $760,701.02 loss accrued since the inception of your company in 1916 through operations and write-down, or amortization of assets acquired when or subsequently to organization, and

(2) That $749,060.00 was paid to stockholders in dividends during the five year period of 1917 to 1921 inclusive, which was $296,355.16 more than the aggregate reported profit for this period.

The heavy losses suffered by your company since 1920 has impaired your current resources to the extent that your current obligations are $31,588.56 more than the current resources. The analysis of the $219,336.10 current obligations shows $145,530.86 past due notes payable with $19,087.93 accrued interest. These obligations totaling $164,618.79, in our opinion, should be refinanced and payment thereof satisfied.

In conclusion we believe that your corporation should make arrangements for refinancing for a minimum of $275,000.00 which would be distributed as follows:

1. $65,150.00 for investment in additional special equipment.

   Your present equipment is capable of producing tools of high quality but this expenditure is imperative to enable you to manufacture at costs low enough to profitably meet competition. A detail of this investment is included in this report.

2. $164,618.79 for satisfaction of Notes Payable with accrued interest.

3. $45,231.21 for reinvestment in inventories, payrolls and accounts receivables.

After your refinancing has been completed and your factory organization, equipment and procedures corrected we believe you should then be in a position to earn a satisfactory return on your investment and improve your position in the cutting tool industry.

Yours very truly,
A. J. BRANDT, INC.

By A J Brandt Inc

NET INVESTMENT REQUIRED FOR PURCHASE

O F

NEW EQUIPMENT

Dept. 6 - Lathe Dept.

1 - No. 1 W. & S. Motor Drive Turret Lathe - M-1270, installed with accessories	$ 1,650.00
1 - No. 2 W. & S. Motor Drive Turret Lathe - M-1330, installed with accessories	2,400.00
2 - No. 3 W. & S. Universal Turret Lathes - M-1200, installed with accessories @ $3,000 ea.	6,000.00
4 - No. 4 W. & S. Universal Turret Lathes - M-1320, installed with accessories @ $3,400 ea.	13,600.00
2 - No. 5 W. & S. Universal Turret Lathes - M-1240, installed with accessories @ $3,600 ea.	7,200.00

Dept. 7 - Milling Dept.

1 - 35 Milwaukee or equivalent Milling Machine	3,300.00
1 - Modern Rotary Trademark and size marking, marking machine	200.00

Dept.10 - Template & Form Tool

1 - Modern Vertical Filing Machine	200.00
1 - Sinebar Attachment	75.00
Sub-total carried forward -	$ 34,625.00

Investment required, continued.

Sub-total brought forward -	$ 34,625.00
Dept. 14 - Flat Grinding	
2 - 2 B. & S. Surface Grinders ball bearing heads @ $750. ea.	1,500.00
4 - Ex-Ell-O ball bearing heads @ $200 ea.	800.00
Dept. 15 - Internal and External Grind.	
1 - #72 A-3 Heald Size-Matic Internal Grinder Motor Drive & Accessories	7,000.00
2 - #72 A Heald plain Internal Grinder Motor Drive @ $5,200 ea.	10,400.00
3 - Heald Red Head Internal Grinding Heads @ $200 ea.	1,000.00
Dept. 13 - Sand Blast	
3 - Type E. M. -2 Sand Blast Equipment complete with dust collector - Accessories & installed @ $600 ea.	1,800.00
Dept. 29 - Forge Shop	
1 - Nazel Type B-#5 Forging Hammer to replace present steam drop hammer	4,000.00
Dept. 20 - Machine Shop	
Central "I" Beam lengthened	25.00
Electric 2 Ton capacity hoist	375.00
Sub-total carried forward -	$61,525.00

Investment required, continued.

Sub-total brought forward -		$ 61,525.00	
Dept. 12 - Heat Treat			
1 - Bellows Lavite Heat Treat. complete pre-heat, high heat & salt quench pots including Electric Panelboard hood & installation		4,850.00	
Building cleanup and paint		300.00	
New floor - concrete		400.00	
Furnace repairs & layout changes		300.00	
Office Dept.			
Cleanup and paint		1,000.00	
Total Investment - - - - - - - - - - - -			$ 68,375.00
Less Estimated credit on obsolete equipment to be sold:			
Sale 7 Hand Screw Machines @ $150. ea.	$ 1,050		
Sale 20 Lathes @ $25	500	1,550.00	
Sale 3 old machines @ $125. ea.		375.00	
Sale of 2 B. & S. Grinders @$150.ea.		300.00	
Sale 2 Steam Hammers @ $500		1,000.00	3,225.00
Net Investment - - - - - - - - - - - -			$ 65,150.00

MANUFACTURING DIVISION RECOMMENDATIONS

Practice in this Department does not seem to have embraced the more modern and efficient methods of planning, routing, or machining the product.

In addition to the recommended new equipment investment of $65,150.00, we suggest the following factors be given consideration:

1. Schedule machine tool rebuilding program to eventually get all the present equipment in the best possible condition, also rearrange maintenance department and personnel to correct the present method of rebuilding machine tools.
2. Rearrangement of all machines in order to accomplish lower costs and higher efficiency of labor.
3. Study forge shop practice to improve grain structures of tools manufactured.
4. Develop and install a wage incentive plan for workmen and foremen in order to maintain a more constant productive labor cost and output.
5. Establish a standards department to develop detail necessary to modernize shop practice.
6. Establish new definite standards for finish grinding and back-off stock allowances.

SUGGESTIONS FOR EXPANSION OF SALES

Since we are of the opinion that your plant organization and finances are not adequate to undertake the manufacture of machine tools or drills, reamers and taps, we believe that your sales expansion should be through expanding your cutting tool sales.

Increased sales should be accomplished by the following methods:

1. Diversification of products in cutting tool field.
2. Expansion in small cutting tool field in many industries rather than concentrating efforts largely on two large customers.
3. Increase distributor and dealer sales organization, especially to handle standard cutters and mills, slab mills, etc.
4. Increase gradually the number of salesmen who know cutting tool business, especially with regard to the sale of special and difficult cutting tools to new line of customers.
5. Discontinue sales efforts on machine tools and concentrate on cutting tools.
6. Effect selling arrangements with other tool companies for the sale of Burni Shave cutters and establish new selling prices on these cutters, based closer to cost of manufacturing in an effort to greatly increase usage of these tools.
7. Correct method of estimating prices for quotation to eliminate as far as possible wide fluctuations in prices to customers.

ENGINEERING DEPARTMENT RECOMMENDATIONS

The direction of this Department has been under the President's supervision mostly with the activities carried on without any program. It is recommended that a Chief Engineer be appointed as Chief Executive of the Engineering Department and that a program be instituted which will be correlated with the Sales and Production Departments.

It is our recommendation that such machine tool design work as has been done in the past be discontinued except for the design of special machine tools and fixtures needed in the plant and required for the production of cutting tools. It is also felt that the personnel of the Engineering Department can be arranged for better efficiency as each employee now works strictly on one problem without having an understudy to fill the position in the event of illness or leaving the employ of the company. Due to the highly technical nature of the engineering work required in the creation of special cutters it is felt this condition should be corrected in order that no tie-up of the plant, or orders, may result.

SUGGESTED CHANGES IN ACCOUNTING PROCEDURE

A general survey discloses a lack of detail information to permit Analysis of Costs or Gross Profits. The information available does not seem to be of much value in assisting the management. No report of Manufacturing Operation is furnished to the Works Manager. In fact, the only reports are Unfilled Orders in dollar value and Monthly Balance Sheets.

We suggest the following changes in your Accounting procedure.

A. The use of a Payroll Sheet which provides for distribution of Labor between Direct and Indirect. This record would be posted from Job Tickets reconciled with total hours posted from Clock Cards.

B. A more detailed classification of Indirect Labor to enable the Factory Management to analyze their operations.

C. The use of a process Routing Sheet upon which Direct Labor would be posted each day by operations rather than by departments. This method would allow a better analysis and keep work more up to date.

D. That the Manufacturing Ledger be kept in the Cost Department and all entries covering manufacturing operations originate in Cost Department.

E. That the present system of Standard Journals be discontinued and a regular Journal Voucher Form be used instead. A chart of Standard Monthly Numbers should be assigned for all regular monthly entries. All Journal Vouchers should have a full description of reason for entry as information is very incomplete in present Journal system.

F. That the Operating Statement be projected in more detail as to Sales, Costs & Gross Profit by major items accompanied by a detailed Selling and Administration Expense, as this detailed information is needed by the officers of your company.

SUGGESTED PURCHASING DEPARTMENT PROCEDURE

The duties of this Department are carried by one man and a part time girl. The principal items bought and yearly volume is as follows:

Steel	$ 160,000
Power	13,000
Grinding Wheel	12,000
Oils	1,000
Fuel	3,000
Office Supplies	3,800
Gas	300

There is a strong tendency to supply customer with special Tradename steels. We are very much of the opinion that such practices should be thoroughly investigated with the thought of discontinuing the use of these Special steels except on demand of customer.

SUGGESTED CHANGES

1. The entire oil and Office Supply items should be changed with apparently appreciable savings.
2. An adequate Stores Department Control should be established at once in the Purchasing Department.
3. Requisitions for all materials used in the Manufacturing Division should be issued and signed by the Production Department for all productive materials and by the foreman for non-productive materials. These requisitions should be posted to the Stores Control records in the Purchasing Department. This will enable the Purchasing Department to maintain all Material Stock Inventory in line with quantities needed.
4. Stores Department should check inventory of all material monthly.
5. Study the possibility of purchasing forging blanks from steel companies.
6. Buying should be done on a more competitive basis by securing quotations from several suppliers before alloting orders.

PROPOSED EMPLOYMENT AND PERSONNEL DEPARTMENT

The past practice in the matter of hiring employees apparently has been to allow foremen to select their own men which is not conducive of good practice and has a tendency to permit favoritism and lack of co-operation between employees of various departments.

The workmen, as a rule, are good and are pride-conscious which is a very favorable trait. Effort, however, is at a low ebb and a wage incentive should produce remarkable results.

A more suitable reception for applicants should be arranged at once, as the present arrangement is discouraging to anyone desiring to become part of your organization.

We suggest the following procedure:

1. A new office layout which contemplates using the present office basement entrance for Applicants' reception room with office switchboard operator acting as receptionist and assisting the applicant in properly filing applications.

2. Applicant should be asked to fill in proper form of APPLICATION FOR EMPLOYMENT and be assisted in so doing.

3. Personal history records of every employee should be compiled at once. None exist at present. The application and employee's record should be combined on one form.

4. A regular form of rate change slip should be put in force as the present procedure is handled on scrap paper memorandums.

PATENT LICENSES

The firm of Fay, Oberlin & Fay, Patent Attorneys, of Cleveland are making a complete study of the Patent License Agreements affecting your Corporation. Their report, however, has not been completed but we are confident that upon completion and presentation of their report, that some equitable arrangement can be inaugurated to govern the future relationship between the employees and your Corporation with regard to license agreements, which will avoid much of the difficulty experienced by your Corporation in the past.

REPORT OF AUDITORS

ERNST & ERNST

CERTIFIED PUBLIC ACCOUNTANTS

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REPORT OF EXAMINATION

THE NATIONAL TOOL COMPANY - CLEVELAND

December 31, 1935.

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NEW YORK

ERNST & ERNST
ACCOUNTANTS AND AUDITORS
SYSTEM SERVICE
CLEVELAND
UNION TRUST BUILDING

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SEATTLE
TOLEDO
WASHINGTON
WHEELING
WINSTON-SALEM
YOUNGSTOWN

TORONTO, CANADA

CORRESPONDENTS AT
LONDON
PARIS
BERLIN
HAMBURG
ANTWERP

CABLE ADDRESS
"ERNSTAUDIT" N. Y.

May 11, 1936.

The National Tool Company,
Cleveland.

Gentlemen:-

We have made an examination of the balance sheet of THE NATIONAL TOOL COMPANY - CLEVELAND as at December 31, 1935 and of the statements of income and deficit for the year ended at that date. In connection therewith we examined or tested accounting records of the Company and other supporting evidence and obtained information and explanations from officers and employees of the Company; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

The articles of incorporation of the Company were filed with the Secretary of State of Ohio on December 23, 1916 and provided that the Company be formed for the purpose of manufacturing, selling and dealing in milling cutters, special tools and machinery, tools and mechanical devices of every kind, nature and description, parts, supplies and all accessories belonging or relating thereto. The articles provided that the capital stock of the Company would consist of 31,000 shares as follows:

		PAR VALUE	
	NO. SHARES	PER SHARE	TOTAL
Preferred-7% cumulative.........	5,000	$100.00	$ 500,000.00
Common..........................	26,000	50.00	1,300,000.00
	31,000		$1,800,000.00

Terms and conditions of shares of each class of stock and other data pertaining to corporate organization are set forth in an exhibit included in this report.

The minutes of the first meeting of stockholders of the Company held December 23, 1916, reflect a resolution authorizing the purchase, from Hayden, Miller & Company, of the net assets of a predecessor company, of the same name incorporated May 9, 1905. These net assets had been acquired by Hayden, Miller & Company on December 21, 1916 and they agreed to transfer them, together with $450,000.00 in cash, to the new Company as consideration for all the authorized preferred and common stock of the new Company.

*Our certificate or report upon an audit or examination is delivered to client with the distinct understanding that any advertisement, publication, or copy therefrom, in full or in part, of such certificate or report, shall be in the form to be approved by us.
As a preventive against fraud, attention is directed to the fact that all pages in this report should bear our water mark.*

We have included herewith an exhibit in which the changes in the surplus-deficit account for the period from the inception of the Company to December 31, 1934 are set forth as shown by the records of the Company and without attempt by us either to segregate all special charges or to allocate transactions recorded in certain years to other years in which they were more properly applicable. A summary of the transactions included in this exhibit follows:

Dividends paid or provided (1917 to 1921):				
Preferred			$151,060.00	
Common			598,000.00	$749,060.00
Nolvex File Company and E. A. Noll-notes and accounts receivable charged off during year 1928			$ 33,723.97	
Charge-offs, etc. year 1934:				
Development expense-1918 to 1923		$ 37,836.73		
Development expense-in inventory-Ford		35,947.78		
Inventory		34,129.71		
Investment-The Simmons Method Heb Company		29,543.03		
Development included with machinery accounts		15,365.48		
Legal expenses-S. J. Kornhauser-provision (1929 to 1933)		10,000.00		
Advance royalties-C. M. Conradson		7,435.18	170,257.91	
			$203,981.88	
Less:				
Net profit (except for direct charges and credits to surplus-deficit which were not segregated in this summary):				
Period from 1916 to 1921, inclusive		$484,656.51		
Period from 1922 to 1934, inclusive-loss*		405,017.61*		
		$ 79,638.90		
Common stock purchased for bonus to employee-returned to surplus in 1921		5,000.00		
Federal income tax refund in year 1928	$42,503.76			
Less fees paid in connection therewith	21,263.58	21,240.18	105,879.08	
NET CHARGE RESULTING FROM OPERATIONS FROM THE INCEPTION OF THE COMPANY TO DECEMBER 31, 1934				98,102.80
PROFIT AND LOSS-DEFICIT JANUARY 1, 1935				$847,162.80

In the following statement, the assets and liabilities of the Company at December 31, 1935, as shown in the accompanying balance sheet, are summarized and compared with similar items at December 31, 1934, as shown by statement of financial condition, which we were informed was submitted to the Securities and Exchange Commission of the United States in connection with registration of the Company's capital stock:

	DEC.31-1935	DEC.31-1934	INCREASE DECREASE*
ASSETS			
Current:			
Cash	$ 47,301.00	$ 22,970.57	$ 24,330.43
Notes and accounts receivable	66,537.77	40,344.80	26,192.97
Inventory	73,908.77	91,784.58	17,875.81*
	$ 187,747.54	$ 155,099.95	$ 32,647.59
Investment-The Simmons Method Hob Company	15,305.32	26,350.08	11,044.76*
Other assets	1,985.15	2,169.65	184.50*
Property, plant and equipment	193,510.00	638,291.79	444,781.79*
Good will, patents, etc	1.00	421,555.37	421,554.37*
Deferred charges	4,062.15	813.91	3,248.24
	$ 402,611.16	$1,244,280.75	$841,669.59*
LIABILITIES, CAPITAL AND DEFICIT			
Current:			
Notes payable	$ 145,530.86	$ 148,114.86	$ 2,584.00*
Accounts payable	22,491.28	42,528.40	20,037.12*
Accrued	51,313.96	52,745.11	1,431.15*
	$ 219,336.10	$ 243,388.37	$ 24,052.27*
The Simmons Method Hob Company	35,073.83	22,760.11	12,313.72
Deferred-taxes under Whittemore Act	17,562.25	-o-	17,562.25
Capital and deficit:			
Capital stock:			
Preferred-7% cumulative	$ 345,400.00	$ 345,400.00	$ -o-
Common	1,295,000.00	1,295,000.00	-o-
Unearned surplus	-o-	184,895.07	184,895.07*
Profit and loss-deficit*	1,509,761.02*	847,162.80*	662,598.22
TOTAL CAPITAL AND DEFICIT*	$ 130,638.98	$ 978,132.27	$847,493.29*
	$ 402,611.16	$1,244,280.75	$841,669.59*
NET EXCESS OF CURRENT LIABILITIES	$ 31,588.56	$ 88,288.42	$ 56,699.86*

The transactions entering into the increase of $662,598.22 in profit and loss-deficit account for the year are set forth in an exhibit included herewith.

The net excess of current liabilities over current assets was decreased in the amount of $56,699.86 during the year as a result of the following transactions:

DECREASES				
Net profit for the year 1935			$38,498.52	
Net adjustment for items not affecting current assets and liabilities:				
Depreciation		$18,224.24		
The Simmons Method Hob Company:				
Royalties	$17,514.22			
Interest	1,438.77			
	$18,952.99			
Less one-half net profit for year	7,243.23	11,709.76	29,934.00	
NET DECREASE FROM OPERATIONS				$68,432.52
Taxes deferred under Whittemore Act				17,562.25
Realization on employees accounts receivable, etc.-net				497.06
				$86,491.83
INCREASES				
Additions to property, plant and equipment			$26,093.65	
Deferred royalties-net advances on Burnishave patents			1,851.89	
Increase in unexpired insurance premiums			821.35	
Prepaid taxes and expenses			575.00	
Payments on The Simmons Method Hob Company accounts			137.52	
Miscellaneous			312.56	29,791.97
NET DECREASE				$56,699.86

Comments relating principally to the extent of our verification of the items included in the accompanying balance sheet follow:

Cash on hand was counted by us on March 31, 1936 and reconciled with the balance reflected by the records at December 31, 1935. Cash on deposit was confirmed directly to us by the depository, the amount reported being reconciled with the balance reflected by the Company's records. Our test of cash transactions for the year 1935 consisted of tracing the aggregate of recorded cash receipts for four selected months into bank deposits and examining cancelled bank checks for the same months. As a further test of recorded cash disbursements for the four months selected by us, we examined invoices, vouchers, pay roll summaries or other date on file.

Customers notes receivable, as set forth in exhibit submitted herewith, were satisfactorily accounted for by us. In the preparation of the accompanying balance sheet, notes receivable aggregating $2,700.00 dated during the years 1930 and 1931 and due during years 1932 and 1933 were charged off as the management informed us that the notes were considered uncollectible. The notes referred to were as follows:

Three notes from Albaugh Dover Manufacturing Company dated August 20, 1931 and maturing during 1932 and 1933 (in bankruptcy)	$ 200.00
Three notes from Covert Gear & Manufacturing Company-dated September 20, 1930 and maturing September 20, 1932 (company apparently no longer doing business)	2,500.00
TOTAL CHARGED OFF	$2,700.00

Customers accounts receivable balances were listed from the individual ledger sheets and the totals thereof were found to be in agreement with the general ledger controlling account. An analysis of the accounts, classified as to date of charge or subsequent realization to March 31, 1936, is set forth in the following summary:

Subsequent realization to March 31, 1936	$64,727.21
Date of charge of accounts unpaid at March 31, 1936:	
December 1935	$ 570.31
November 1935	115.92
October 1935	1,476.00
September 1935	240.44
August 1935	47.81
July 1935	41.68
January to June 1935	438.77
Prior to January 1, 1935	5,930.29
	$ 8,861.22
TOTAL ACCOUNTS RECEIVABLE	$73,588.43

Items unpaid at March 31, 1936, as shown by the foregoing summary, are represented principally by the following accounts:

Almetal Universal Joint Company (payments are being received currently)	$ 309.40
Buckeye Jack Manufacturing Company	136.15
Kempsmith Manufacturing Company (in liquidation-25% realization expected)	841.45
National Erie Company (in bankruptcy)	223.29
Philadelphia Gear Works, Inc. (December 1935 charge)	339.50
Red Star Products Company (paying now on C.O.D. basis)	277.35
Ridge Tool Company (October and November 1935 charges)	1,296.39
Societe Anonyme Andre Citroen (reorganizing)	2,600.00
Springfield Manufacturing Company (payment received for portion of balance prior to March 31, 1936)	300.00
George Stenzel & Company-Berlin (payment held up by German Foreign Exchange Central office)	1,602.41
	$7,925.94
Miscellaneous	935.28
TOTAL UNPAID MARCH 31, 1936	$8,861.22

We have also included herewith an exhibit in which all accounts having balances in excess of $500.00 at December 31, 1935 are set forth in detail. It should be noted that approximately 55% of the Company's gross sales for the year 1935 represented sales to three customers. The allowance of $7,500.00 provided in the accompanying balance sheet for notes and accounts receivable considered doubtful of collection, in our opinion, is sufficient for that purpose.

Inventory of raw materials, work in process, finished merchandise and factory supplies on hand at December 31, 1935 is included on the basis of physical counts taken and priced by employees of the Company during the last few days of December 1935. The following comments relating to the basis of valuing the principal items in the inventory were noted in connection with our tests of inventory computations and method of pricing:

Raw materials were found to consist principally of steel stock, the quantities of which were reflected by perpetual inventory cards which were adjusted to physical counts at the end of the year. In most instance the latest purchase price, as shown by perpetual inventory card, was used in pricing the inventory. We were informed that, with the exception of items having an aggregate valuation of approximately $5,000.00, this inventory represented steel of quality and sizes usable in current production. The inventory reserve includes a provision of $5,000.00 for items not considered as being usable in current production.

Work in process inventory represents the cumulated costs on products and two machines in process. Tests made of Company's cost accounting procedure indicated that on the basis of overhead rates used actual overhead expenses were somewhat overabsorbed during the year 1935. However, the amount of such overabsorption applicable to the in process and finished inventories at December 31, 1935, was relatively small and no adjustment was made therefor. Work in process inventory details indicated that the following machines, which we were informed were being constructed and erected for use in Company's plant, were included therein:

Foundation and erection-steam hammer	$ 2,081.38
Three gear shape cutters and grinding machines	7,228.95
Three hob grinding machines	2,978.54
TOTAL	$12,288.87

In the accompanying balance sheet the foregoing amount has been eliminated from inventory and included with machinery and equipment.

Finished merchandise is included on the basis of cumulated costs less reduction during the year 1934 of 10% in the prices of slow moving items included therein and less the amount of $18,970.15 charged off upon the completion of the finished inventory listing at December 31, 1935, to further reduce the valuation of slow moving items included in the finished inventory. The entry indicated that this additional reduction was for the following items, which have been removed from catalogue listing:

Gear shaper cutters (full value)	$ 3,348.33
Other special cutters (full value)	6,468.62
Machine parts (full value)	5,653.20
	$15,470.15
Special steering worm gear machine (50% of cost)	3,500.00
TOTAL	$18,970.15

In reviewing the details of finished inventory with an executive of the Company we were informed that the steering worm gear machine was considered of very questionable value and that an additional reserve of from $5,000.00 to $7,000.00 was needed for the remaining items in the finished inventory considered as slow moving or unusable. We have provided additional reserves of $6,500.00 for slow moving items and $3,500.00 for the special steering worm gear machine. Consigned products and machine were priced on the same basis as finished merchandise at Cleveland, no amount being included for freight or other delivery costs. The inventory valuation has been certified to us by a responsible official of the Company as to quantities, salability and basis of valuation as stated.

Investment in The Simmons Method Hob Company represents the cost value of 50% of the outstanding stock of that Company, less a reserve to reduce the carrying value thereof to 50% of its net worth as shown by balance sheet as of December 31, 1935 included herein as prepared from its records without detailed audit by us. The decrease of $11,044.76 in this investment account for the year results from the following transactions:

Adjustments affecting carrying value of investment as at December 31, 1934; investment at that date apparently based on net worth of affiliate as reflected by balance sheet filed as exhibit in parent Company's report to securities and Exchange Commission:			
Net worth as shown by balance sheet of affiliate filed with commission $52,710.17-50% thereof		$26,355.08	
Less parent Company carrying value of investment December 31, 1934		26,350.08	
ADJUSTMENT TO INCREASE TO 50% OF NET WORTH			$ 5.00
Cost of patents were adjusted on record of affiliate during year 1932 to basis shown by report of internal revenue examiner. This adjustment apparently not given effect to in balance sheet of affiliate at December 31, 1934. Adjustment follows:			
Excess of carrying value over cost to predecessor company	$47,124.90		
Less amortization of excess stated to December 31, 1934	17,223.71		
50% OF ADJUSTMENT	$29,901.19	$14,950.59	
FORWARD		$14,950.59	$ 5.00

ADJUSTMENTS OF INVESTMENT-THE SIMMONS METHOD HOB COMPANY-FORWARD		$14,950.59	$ 5.00
Other prior year adjustments:			
Royalty income	$6,384.31		
Patent amortization-cost basis	208.60		
Interest	121.75		
	$6,714.66		
Less adjustment of taxes	29.86		
50% OF ADJUSTMENT	$6,684.80	3,342.40	18,292.99
NET DECREASE DECEMBER 31, 1934			$18,287.99
Less 50% of net profit for year 1935			7,243.23
NET DECREASE SHOWN BY COMPARATIVE BALANCE SHEET			$11,044.76

The Company has an agreement with this affiliate, which provides for payment of 10% of net sales on products sold which are manufactured under certain patents owned by the affiliate. At the time of our examination of the stock certificates of The Simmons Method Hob Company, it was noted that certificates for one share each in the names of E. A. Noll, John S. Fleek, L. M. Shafer and S. J. Kornhauser, respectively, were not endorsed.

The items included under the caption of "Other Assets" are set forth in an exhibit included herewith. It should be noted that in addition to the license agreement which the Company has with The Simmons Method Hob Company, a number of license agreements are in effect with Mr. O. G. Simmons and one agreement with Barber-Coleman Company. We understand that some of the agreements with Mr. Simmons are in connection with products, machines, parts, etc. not in current production. In exhibit included herewith we have summarized the data reflected by the various license agreements examined by us. Cash surrender value of $10,000.00 life insurance policy on life of Edward A. Noll, together with the policy and premium loans thereon, were confirmed to us by the insuring company, the amounts stated being in substantial agreement with the net valuation shown by the Company's records. The Company was also beneficiary under a policy of $50,000.00 carried on the life of Oliver G. Simmons. This policy was dated December 5, 1933 and apparently had no cash surrender value until the close of the third year thereafter.

Property, plant and equipment are stated in the accompanying balance sheet on the basis of depreciated cost values shown in report of United States Revenue Department examiner for the year ended December 31, 1929, plus additions since that date at cost and less depreciation at rates shown by examiner's report. The basis of valuation has been authorized by the Board of Directors. It will be noted from comparative balance sheet included hereinbefore that property, plant and equipment accounts reflect a net reduction of $444,781.79 during the year which is accounted for generally by the following transactions:

Adjustment to eliminate appreciation resulting from appraisal of land and buildings by The Cleveland Real Estate Board as of June 17, 1921:		
Land (appraised at $50,000.00)	$ 10,896.02	
Buildings (appraised at $425,000.00)	173,999.05	$184,895.07
FORWARD		$184,895.07

FORWARD				$184,895.07
Net adjustment of buildings, machinery and equipment to basis used for federal income tax purposes:				
Amortization allowed in 1918 not entered on records:				
Buildings		$ 83,904.31		
Machinery and equipment		84,784.74	$168,689.05	
Adjustment of reserves for depreciation:				
Machinery and equipment-additional depreciation allowed on basis of 10% annual rate on cost values. Company apparently followed no consistent policy with respect to depreciation prior to 1929		$140,126.14		
Office furniture and fixtures-additional depreciation for same reason-annual rate 10%		2,820.54		
		$142,946.68		
Less reduction in depreciation reserve on buildings-examiner allowed annual rate of 2½%-in amounts provided by Company prior to 1929 apparently rates used were applied to appraised values, which were higher than costs		43,879.60	99,067.08	267,756.13
DECREASE AFFECTING BALANCE DECEMBER 31, 1934				$452,651.20
Additions for the year 1935:				
Buildings (foundation for electric furnace)		$ 672.25		
Machinery and equipment:				
Capitalized	$12,451.94			
Machinery in process of construction and erection (included on books as inventory)	12,288.87	24,740.81		
Furniture and fixtures		680.59	$ 26,093.65	
Less depreciation provided at rates stated			18,224.24	
NET INCREASE FOR YEAR 1935				7,869.41
NET DECREASE				$444,781.79

Data examined in substantiation of principal charges to property, plant and equipment accounts during the year 1935, indicated that the items were of a capitalizable nature. It was noted, however, that certain charges for repairs to machinery, equipment, etc. were made to depreciation reserve accounts during the year, but these items have been adjusted by us in the preparation of the accompanying statements.

Good will, patents, etc. valuation has been adjusted in the accompanying balance sheet to a nominal value of $1.00 as authorized by Company's board of directors.

Deferred charges represent items which in our opinion are properly chargeable to future operations of the Company. Unexpired insurance premiums include items aggregating $1,258.30 representing the deferred portion of premiums paid on life insurance policies. The amount of $1,851.89 for deferred royalties represents principally funds advanced during the year 1935 for the payment of legal services, etc. in connection with Burni-shave cutters patent application in name of O. G. Simmons, less royalty credits on sales of products manufactured under license agreements in connection with this patent for the year. A summary of the items entering into this balance follows:

Advances during 1935 for legal expenses, etc.	$3,094.74
Less royalty credits year 1935-Burni-shave cutters, 5% of monthly net sales, minimum payments of $100.00 a month (minimum paid for four months during year)	1,242.85
	$1,851.89

We were informed by Mr. O. G. Simmons that the directors of the Company had agreed to advance funds sufficient to cover the expenses of securing these patents for him and that these advances were to be charged against royalties accruing to him under Burni-shave patents.

Provision has been made in the accompanying balance sheet for all ascertained liabilities of the Company at December 31, 1935. Notes payable were confirmed to us by the recorded holders or were verified by inspection of records of affiliate. A summary of notes payable follows:

	AMOUNT OF NOTES	ACCRUED INTEREST	COMBINED
Note to Union Trust Company-Cleveland dated February 25, 1933-due on March 27, 1933-interest at 6%-no interest paid	$130,614.86	$18,928.74	$149,543.60
Seven notes to Vanadium-Alloys Steel Company-dated October and November 1935-due 90 days-interest 6% payable at maturity	14,700.00	150.23	14,850.23
Note to New England Mutual Life Insurance Company for portion of premium on life insurance policy-E. A. Noll-dated April 22, 1935-due 9 months-interest 6% due at maturity	216.00	8.96	224.96
TOTAL CLASSIFIED AS CURRENT	$145,530.86	$19,087.93	$164,618.79

	AMOUNT OF NOTES	ACCRUED INTEREST	COMBINED
Notes to The Simmons Method Hob Company for royalty payments. Notes bear interest at 6% but no payments have been made thereon. Notes dated 15th of various months and are payable on demand:			
Seven monthly notes-June 15, 1932 to December 15, 1932	$5,384.10	$1,084.83	$ 6,468.93
Ten notes-January 15, 1933 to December 15, 1933	3,888.63	582.52	4,471.15
Eleven notes-January 15, 1934 to December 15, 1934	10,563.88	954.28	11,518.16
Two notes-January 15 and February 15, 1935	3,167.20	173.68	3,340.88
TOTAL DUE AFFILIATE	$23,003.81	$2,795.31	$25,799.12

Royalties for the months subsequent to January 1935 were credited to the account payable to the affiliate.

The larger items included in accounts payable for purchases, expenses, etc. are summarized as follows:

Vanadium-Alloys Steel Company	$ 6,197.32
Cleveland Tool & Supply Company	1,252.23
Cleveland Electric Illuminating Company	1,226.80
Prospect Coal Company	894.80
Detroit Athletic Club	436.54
Colonial Steel Company	380.16
Superior Foundry Company	329.30
Miscellaneous	5,267.68
TOTAL	$15,984.83

The account payable to S. J. Kornhauser consists of the following items:

March 23, 1934-invoice for services rendered, traveling expenses, etc. from April 21, 1929 to March 31, 1931-in connection with The Lees-Bradner Company lawsuit	$ 3,500.00
March 23, 1934-invoice for services rendered traveling expenses, etc. on various matters outside of Cleveland from May 2, 1929 to July 25, 1933	6,500.00
	$10,000.00
FORWARD	$10,000.00

FORWARD		$10,000.00
Reduction authorized in directors' meeting May 31, 1935-minutes indicate that S. J. Kornhauser agreed to accept $7,000.00 in payment for his bill. (Accounts payable voucher made in settling this account was for $7,508.87, the excess over $7,000.00 being equal to the amount due from S. J. Kornhauser on accounts receivable)		2,491.13
		$ 7,508.87
Payment made June 3, 1935 in accordance with agreement	$1,000.00	
Account receivable representing charges made to S. J. Kornhauser from November 30, 1932-applied against account payable	508.87	1,508.87
		$ 6,000.00
January 1, 1936-services June 15, 1935 to January 1, 1936 not covered by retainer	$ 500.00	
Telegrams and telephone calls	6.45	506.45
BALANCE DECEMBER 31, 1935		$ 6,506.45

Accrued interest payable includes the following items:

On current notes payable, as shown by foregoing summary	$19,087.93
On taxes payable under Whittemore Act	224.40
On loan on life insurance policy	27.03
TOTAL	$19,339.36

Amounts due The Simmons Method Hob Company on notes payable and accrued interest thereon are set forth in summary included hereinbefore and amounts due on accounts payable consist of the following items:

Royalty credits less adjustments for period from February 1, 1935 to December 31, 1935		$15,838.94
Less:		
Adjustment of royalties credited in prior years as shown by report of independent auditor dated September 11, 1935	$6,384.31	
Interest adjustment	42.40	
Various taxes paid for affiliate during 1935	137.52	6,564.23
BALANCE DECEMBER 31, 1935		$ 9,274.71

Authorized and outstanding capital stock was confirmed directly to us by Central National Bank of Cleveland, registrar and transfer agent. Capital stock in treasury was examined by us and attention is directed to the fact that certificate C-256 for 100 shares of common stock (in treasury) was issued in name of S. J. Kornhauser, treasurer and was not endorsed.

Insurance policies examined indicated that the Company was protected as follows:

FIRE	
Buildings and contents (policy expired January 1, 1936 and was renewed on that date for three years)	$300,000.00
Garage building	2,000.00
	$302,000.00
USE AND OCCUPANCY	
Company was uninsured at December 31, 1935.	
Policy taken out as of January 1, 1936	100,000.00
LIFE INSURANCE	
Modified life policy on the life of Oliver G. Simmons	50,000.00
Straight life policy on the life of Edward A. Noll	10,000.00
SURETY BONDS	
None	
MISCELLANEOUS	
Manufacturers public liability, boiler explosion, public liability and property damage on Company owned autos and truck, fire insurance on consigned stock at Milwaukee, cargo insurance, workmen's compensation and check forgery	

It should be noted that minutes of shareholders' and directors' meetings examined by us reflected no authorizations for dividends paid as reflected by accompanying statement of deficit account. It was also noted that the articles of incorporation of the Company provide that beginning March 1, 1918 the directors shall annually set aside out of surplus or net profits and pay to bank a sum sufficient to retire at least 5% of the greatest amount of preferred stock at anytime outstanding and, after payment of preferred dividend and setting aside 5%, which provision is cumulative, the remainder of net profits may be used for dividends on common stock provided, however, that after payment of $130,000.00 on common in any one year there shall be set aside and paid to disbursing agent an additional amount equal to that paid common for retirement of preferred. The unpaid cumulated portion of the 5% preferred stock retirement requirement amounted to $289,150.00 at December 31, 1935.

We have been informed by counsel for the Company that at December 31, 1935 the Company was defendant in a lawsuit alleging patent infringement in connection with the manufacture of a certain product, but that no material liability is expected to result therefrom.

In connection with our examination we made analysis and inquiry into certain expense accounts for prior years, cost accounting procedure, etc., and our comments pertaining thereto will be set forth in supplementary letter to be issued under separate cover.

In our opinion, based upon our examination and subject to the foregoing comments, the accompanying balance sheet and related statements of income and deficit fairly present the position of the Company at December 31, 1935 and the results of its operations for the year ended at that date.

Very truly yours,

ERNST AND ERNST
CERTIFIED PUBLIC ACCOUNTANTS
CLEVELAND

Ernst & Ernst
Certified Public Accountants

BALANCE

THE NATIONAL TOOL

As at the close of business

ASSETS

CURRENT				
CASH				
On hand		$ 483.40		
On deposit		46,817.60	$ 47,301.00	
NOTES AND ACCOUNTS RECEIVABLE				
Customers notes	$ 439.89			
Customers accounts	73,588.43			
Vendors debit balances	9.45	$ 74,037.77		
Less reserve		7,500.00	66,537.77	
INVENTORY (lower of cost or market)				
Raw materials	$ 27,840.82			
Work in process	23,008.42			
Factory supplies	11,221.85			
Finished merchandise	23,709.11			
Consigned merchandise	3,128.57	$ 88,908.77		
Less reserve for possible shrinkage		15,000.00	73,908.77	$ 187,747.54
AFFILIATED COMPANY				
The Simmons Method Hob Company				
300 shares at cost (one-half of the outstanding stock)			$ 45,000.00	
Less reserve to reduce to 50% of net worth as shown by balance sheet as of December 31, 1935			29,694.68	15,305.32
OTHER ASSETS				
Cash surrender value of life insurance		$ 5,219.50		
Less policy loans		4,193.00	$ 1,026.50	
Water deposit			600.00	
Advances to employees			358.65	1,985.15
PROPERTY, PLANT AND EQUIPMENT				
At cost, as shown by revenue agent's report of December 31, 1929, plus subsequent additions at cost:				
Land			$ 39,103.98	
Buildings	$ 170,256.75			
Machinery, equipment, etc.	155,973.39	$ 326,230.14		
Less reserve for depreciation		171,824.12	154,406.02	193,510.00
GOOD WILL, PATENTS, ETC.				
Nominal value				1.00
DEFERRED CHARGES				
Deferred royalties			$ 1,851.89	
Unexpired insurance premiums			1,635.26	
Prepaid taxes			525.00	
Prepaid expenses			50.00	4,062.15
				$ 402,611.16

SHEET

COMPANY - CLEVELAND

December 31, 1935.

LIABILITIES, CAPITAL AND DEFICIT

CURRENT				
NOTES PAYABLE				
The Union Trust Company		$ 130,614.86		
Trade		14,916.00	$ 145,530.86	
ACCOUNTS PAYABLE				
For purchases, expenses, etc.		$ 15,984.83		
To officer-S. J. Kornhauser		6,506.45	22,491.28	
ACCRUED				
Interest		$ 19,339.36		
Unpaid pay roll		15,593.15		
Estimated federal income tax		7,000.00		
Estimated state, county and federal capital stock taxes		6,975.51		
Other accrued expenses (principally commissions)		2,405.94	51,313.96	$ 219,336.10
THE SIMMONS METHOD HOB CO.				
Notes payable			$ 23,003.81	
Account payable			9,274.71	
Accrued interest			2,795.31	35,073.83
DEFERRED LIABILITIES				
Taxes under Whittemore Act-portion due after 1936				17,562.25
CAPITAL AND DEFICIT				
CAPITAL STOCK				
Preferred-7% cumulative-par value $100.00:				
Authorized and issued-3,480 shares	$ 348,000.00			
Less in treasury-26 shares	2,600.00	$ 345,400.00		
Common-par value $50.00:				
Authorized and issued-26,000 shares	$1,300,000.00			
Less in treasury-100 shares	5,000.00	1,295,000.00	$1,640,400.00	
DEFICIT				
Balance December 31, 1935			1,509,761.02	130,638.98
				$ 402,611.16

(Note A) Dividends cumulated but unpaid on preferred stock outstanding at December 31, 1935 amounted to $338,492.00 or $98.00 a share.

(Note B) This balance sheet is subject to the comments submitted herewith.

DEFICIT

THE NATIONAL TOOL COMPANY - CLEVELAND

December 31, 1935.

Balance December 31, 1934-as shown by statement filed with Securities and Exchange Commission				$ 847,162.80
ADDITIONS				
Good will, patents, etc., written down to carrying value of $1.00:				
Original balance set up at inception of the Company		$ 408,000.10		
Organization and patent expense charged to account subsequent to opening entry		13,555.27		
		$ 421,555.37		
Less nominal amount remaining in account		1.00	$ 421,554.37	
Adjustments to property, plant and equipment to basis established by Internal Revenue Department examiner's report of December 31, 1929:				
Elimination of amortization of buildings, machinery and equipment allowed in 1918, not entered on records		$ 168,689.05		
Adjustment of reserves for depreciation due to insufficient provision in years prior to 1929		99,067.08	267,756.13	
Adjustments affecting investment in and accounts payable to The Simmons Method Hob Company at January 1, 1935:				
One half the net adjustment to bring patents owned by affiliate to cost, less amortization to December 31, 1934		$ 14,950.59		
One half the net adjustments to royalty income, patent amortization, interest, taxes, etc., affecting operations of affiliate in prior years		3,342.40		
		$ 18,292.99		
Less:				
Adjustment of royalties credited in prior years	$ 6,384.31			
Adjustment of interest on above	117.44			
Adjustment to correct error in computing investment at December 31, 1934	5.00	6,506.75	11,786.24	
			$ 701,096.74	
DEDUCTIONS				
Net profit from operations for the year ended December 31, 1935			38,498.52	$ 662,598.22
BALANCE DECEMBER 31, 1935				$1,509,761.02

RECONCILEMENT OF DEFICIT

THE NATIONAL TOOL COMPANY - CLEVELAND

December 31, 1935.

Deficit December 31, 1935-as shown by books			$ 589,259.49
ADDITIONS			
Adjustments to property, plant and equipment to basis established by Internal Revenue Department examiner's report of December 31, 1929		$ 452,651.20	
Good will, patents, etc. written down to $1.00		421,554.37	
Net adjustment of investment in and accounts with The Simmons Method Hob Company		16,615.91	
Reserve provided for slow moving items in inventory		15,000.00	
Estimated liability for federal income tax		7,000.00	
Adjustments to reserves for depreciation:			
For repairs capitalized on books	$ 3,851.05		
For additional provision for depreciation	402.98	4,254.03	
Uncollectible notes receivable charged off		2,700.00	
Adjustment of accrued taxes		1,173.82	
Liability for legal services-S. J. Kornhauser		506.45	
Adjustment of insurance, royalties, etc.-net		45.75	
		$ 921,501.53	
DEDUCTION			
Reduction in reserve for bad debts		1,000.00	920,501.53
ADJUSTED BALANCE DECEMBER 31, 1935			$1,509,761.02

SUMMARY OF SURPLUS-DEFICIT ACCOUNT

THE NATIONAL TOOL COMPANY - CLEVELAND

From January 1, 1917 to December 31, 1934.

	CREDITS CHARGES* SPECIAL ITEMS SEGREGATED	DIVIDENDS		PROFIT-LOSS* AND OTHER ITEMS NOT SEGREGATED	TOTAL INCREASE DECREASE*	ACCUMULATED SURPLUS-DEFICIT*
		PREFERRED	COMMON			
Balance December 31, 1916 (records indicate net profit for 1916)				$ 30,951.67	$ 30,951.67	$ 30,951.67
Year ended December 31st:						
1917		$ 35,000.00	$ 110,500.00	166,225.66	20,725.66	51,677.33
1918		33,687.50	156,000.00	216,328.81	26,641.31	78,318.64
1919		30,572.50	156,000.00	187,162.30	589.80	78,908.44
1920 (Setting up McKinley Reamer patent)	$ 75,000.00A	27,002.50	156,000.00	12,706.27	45,296.23*	33,612.21
(Land appraisal)	50,000.00A					
1921 (Appreciation of buildings to $475,000.00 real estate board appraisal)	134,895.07A	24,797.50	19,500.00	128,718.20*	33,120.63*	491.58
(100 shares common purchased as bonus for J. L. Holstein-returned to treasury)	5,000.00					
1922				86,592.83*	86,592.83*	86,101.25*
1923				69,861.38*	69,861.38*	155,962.63*
1924				85,672.02*	85,672.02*	241,634.65*
1925				37,084.21*	37,084.21*	278,718.86*
1926				31,035.92*	31,035.92*	309,754.78*
1927				1,820.89	1,820.89	307,933.89*
1928 (Income tax refund)	42,503.76					
(Fees on above)	21,263.58*					
(Nolvex File Co. and E. A. Noll notes and accounts charged off)	33,723.97*			80,683.71	68,199.92	239,733.97*
1929				81,043.39	81,043.39	158,690.58*
1930				68,707.60*	68,707.60*	227,398.18*
1931				124,830.41*	124,830.41*	352,228.59*
1932				23,937.24*	23,937.24*	376,165.83*
1933				46,025.88*	46,025.88*	422,191.71*
1934 (Write-offs):						
Inventory	34,129.71*					
Development expense in inventory-Ford	35,947.78*					
Advance royalties C. M. Conradson	7,435.18*					
Development 1918-1923	37,836.73*					
Development in machinery account	15,365.48*					
McKinley Reamer patents	75,000.00A*					
Investment-Simmons Method Hob Company	29,543.03*			5,181.89	240,076.02*	662,267.73*
Legal expenses-S. J. Kornhauser-prior years	10,000.00*					
BALANCE-AS SHOWN BY COMPANY'S BOOKS DECEMBER 31, 1934	$ 7,153.37	$ 151,060.00	$ 598,000.00	$ 79,638.90	$ 662,267.73*	

(Note) Above statement prepared from records of Company without adjustment by us and included credits "A" for appreciation of land, buildings to values determined by independent appraisal and appreciation of McKinley Reamer patent to basis of $75,000.00 as determined by management.

INCOME AND EXPENSE

THE NATIONAL TOOL COMPANY - CLEVELAND

For the year ended December 31, 1935.

		PER CENT TO NET SALES
SALES	$ 775,451.19	103.95
LESS:		
Discount allowed	$ 12,607.71	1.69
Returns and allowances	11,311.88	1.52
Freight out	5,547.88	.74
	$ 29,467.47	3.95
NET SALES	$ 745,983.72	100.00
COST OF SALES		
As shown by exhibit	547,052.05	73.33
MANUFACTURING PROFIT	$ 198,931.67	26.67
EXPENSE (as shown by exhibits)		
Selling	$ 81,456.95	10.92
Administrative and general	32,867.54	4.41
	$ 114,324.49	15.33
OPERATING PROFIT	$ 84,607.18	11.34
OTHER DEDUCTIONS		
Interest	$ 11,557.66	1.55
Life insurance expense	1,556.44	.21
Notes and accounts charged off and provision for doubtful	3,795.36	.50
Miscellaneous	195.20	.03
	$ 17,104.66	2.29
OTHER INCOME		
Increase in investment in The Simmons Method Hob Company-50% of net profit for 1935	$ 7,243.23	.97
Adjustment of liability for legal expense (S. J. Kornhauser)	2,491.13	.34
Net adjustment of taxes for prior years	1,749.70	.23
Rent	366.50	.05
Profit on sale of equipment	106.08	.01
Interest earned	9.51	-o-
	$ 11,966.15	1.60
OTHER DEDUCTIONS-NET	$ 5,138.51	.69
NET PROFIT BEFORE SPECIAL CHARGES AND PROVISION FOR FEDERAL TAXES	$ 79,468.67	10.65
SPECIAL CHARGES		
Obsolete items in finished inventory-charged off during the year	$ 18,970.15	2.54
Reserve for slow moving items in inventory	15,000.00	2.01
	$ 33,970.15	4.55
NET PROFIT BEFORE PROVISION FOR FEDERAL TAXES	$ 45,498.52	6.10
Provision for federal income taxes-estimated	7,000.00	.94
NET PROFIT	$ 38,498.52	5.16

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COST OF SALES

THE NATIONAL TOOL COMPANY - CLEVELAND

For the year ended December 31, 1935.

		% TO NET SALES
Inventory-beginning	$ 91,784.58	12.30
Purchases	182,933.03	24.52
Direct labor	240,094.28	32.18
Manufacturing expense:		
Indirect labor	$ 74,774.91	10.03
Supplies and expense	44,451.72	5.96
Royalties-The Simmons Method Hob Company	17,514.22	2.36
Royalties-others	8,791.85	1.17
Depreciation	17,758.24	2.38
Repairs	16,141.27	2.16
Tool expense	15,469.58	2.07
Taxes	7,431.44	1.00
Insurance	2,716.80	.36
	$ 205,050.03	27.49
	$ 719,861.92	96.49
LESS:		
Inventory-end	$ 73,908.77	9.91
Material, labor and expense redistributed	44,538.98	5.97
Charge-off and provisions for obsolete and slow moving items included as special charges in income and expense statement	33,970.15	4.55
Miscellaneous sales	19,931.12	2.67
Discount earned	460.85	.06
	$ 172,809.87	23.16
TOTAL	$ 547,052.05	73.33

SELLING EXPENSE

THE NATIONAL TOOL COMPANY - CLEVELAND

For the year ended December 31, 1935.

		PER CENT TO NET SALES
Commissions	$ 24,434.91	3.28
Salesmen's salaries	15,975.00	2.14
Office salaries	11,479.30	1.54
Executives' salaries	5,325.00	.71
	$ 57,214.21	7.67
Travel and entertainment	17,505.50	2.34
Advertising	2,740.48	.37
Rent-branch offices	1,458.00	.20
Office supplies and expense	860.16	.12
Stationery and printing	835.00	.11
Telephone and telegraph-branches	381.22	.05
Dues and subscriptions	264.50	.04
Insurance	106.17	.01
Automobile maintenance	91.71	.01
TOTAL	$ 81,456.95	10.92

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ADMINISTRATIVE AND GENERAL EXPENSE

THE NATIONAL TOOL COMPANY - CLEVELAND

For the year ended December 31, 1935.

		PER CENT TO NET SALES
Executives' salaries	$ 14,837.50	1.99
Office salaries	7,021.25	.94
	$ 21,858.75	2.93
Telephone and telegraph	3,072.36	.42
Legal and professional	2,702.24	.36
Postage	882.85	.12
Office supplies and expense	839.29	.11
Taxes-corporate	838.58	.11
Stationery and printing	664.82	.09
Traveling and entertainment	520.90	.07
Depreciation-furniture and fixtures	466.00	.06
Registrar and transfer agents' fees	414.02	.06
Credit and collection expense	297.73	.04
Repairs and maintenance	236.61	.03
Sundry	73.39	.01
TOTAL	$ 32,867.54	4.41

NOTES RECEIVABLE

THE NATIONAL TOOL COMPANY - CLEVELAND

December 31, 1935.

DATED	MAKER	DUE	AMOUNT
Mar. 15-1935	Dombirer Machine Tool Company	June 30-1936	$ 4.74
Dec. 21-1935	Es-M-Co. Auto Products Corporation	Feb. 21-1936	36.29
Dec. 19-1935	Indian Motorcycle Company	Feb. 19-1936	134.57
Sept.27-1935	Spencer Manufacturing Company	Nov. 15-1935	264.29
		TOTAL	$ 439.89

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ACCOUNTS RECEIVABLE

THE NATIONAL TOOL COMPANY - CLEVELAND

December 31, 1935.

ACCOUNTS HAVING BALANCES OVER $500.00	
Almetal Universal Joint Company	$ 629.55
Beals, McCarthy & Rogers, Incorporated	2,857.58
Buick Motor Company	2,954.45
Chrysler Corporation	1,260.80
Cleveland Heater Company	1,467.95
Delco Remy Division of General Motors Corporation	874.69
Foote-Burt Company	2,613.90
Ford Motor Company	20,708.13
Horsburgh & Scott Company	1,472.85
Hudson Motor Car Company	601.52
Hughes Tool Company	775.14
Kempsmith Manufacturing Company	841.45
Muncie Products Division of Chevrolet Motor Car Company	896.80
National Machine Products Company	847.85
Packard Motor Car Company	660.00
Philadelphia Gear Works, Incorporated	1,086.19
Reed Roller Bit Company	846.66
Reo Motor Car Company	960.00
Ridge Tool Company	1,296.39
Societe Anonyme Andre Citroen	2,600.00
George Stenzel & Company	1,602.41
Vanadium Alloys Steel Company	1,169.59
Vlchek Tool Company	910.00
Warner Gear Company	9,607.75
Westinghouse Electric & Manufacturing Company	1,180.00
White Motor Company	601.45
	$ 61,323.10
162 ACCOUNTS HAVING BALANCES UNDER $500.00	12,265.33
TOTAL	$ 73,588.43

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OTHER ASSETS

THE NATIONAL TOOL COMPANY - CLEVELAND

December 31, 1935.

CASH SURRENDER VALUE OF LIFE INSURANCE			
New England Mutual Life Insurance Company		$ 5,219.50	
Less policy loan		4,193.00	$ 1,026.50
WATER DEPOSIT			600.00
ADVANCES TO EMPLOYEES			
E. G. Hardig		$ 190.27	
T. E. Lord		60.77	
R. H. King		50.00	
O. G. Simmons:			
Miscellaneous materials and supplies	$ 102.55		
Less accrued royalties payable	71.75	30.80	
S. J. Burdick		19.62	
H. A. Raus		7.19	358.65
		TOTAL	$ 1,985.15

PROPERTY, PLANT AND EQUIPMENT

THE NATIONAL TOOL COMPANY - CLEVELAND

December 31, 1935.

	BALANCE PER BOOKS JAN. 1-1935	ELIMINATION OF AMORTIZATION	APPRECIATION ELIMINATED	FULLY DEPRECIATED TO JAN. 1-1935	ADJUSTED BALANCE JAN. 1-1935	ADDITIONS	DEDUCTIONS	FULLY DEPRECIATED DURING 1935	ADJUSTED BALANCE DEC. 31-1935
ASSETS									
Land	$ 50,000.00	$ -0-	$ 10,896.02	$ -0-	$ 39,103.98	$ -0-	$ -0-	$ -0-	$ 39,103.98
Buildings	427,487.86	83,904.31	173,999.05	-0-	169,584.50	672.25	-0-	-0-	170,256.75
	$ 477,487.86	$ 83,904.31	$ 184,895.07	$ -0-	$ 208,688.48	$ 672.25	$ -0-	$ -0-	$ 209,360.73
Machinery and equipment:									
Machinery	$ 490,229.76	84,784.74	-0-	475,126.01	127,625.12	15,145.96	3,481.59	2,442.72	136,846.77
Shop tools and fixtures	135,808.40								
Heating and power equipment	57,251.97								
Sprinkler system	4,245.74								
	$ 687,535.87								
Furniture and fixtures	17,198.70	-0-	-0-	12,873.79	4,324.91	693.09	12.50	10.50	4,995.00
Autos and trucks	6,699.75	-0-	-0-	-0-	6,699.75	-0-	-0-	4,857.00	1,842.75
Construction in process	-0-	-0-	-0-	-0-	-0-	12,288.87	-0-	-0-	12,288.87
TOTAL	$1,188,922.18	$ 168,689.05	$ 184,895.07	$ 487,999.80	$ 347,338.26	$ 28,800.17	$ 3,494.09	$ 7,310.22	$ 365,334.12

	BALANCE PER BOOKS JAN. 1-1935	ADJUSTMENT TO BASIS IN REVENUE AGENT'S REPORT OF DECEMBER 31, 1929 CHARGES	CREDITS	FULLY DEPRECIATED TO JAN. 1-1935	ADJUSTED BALANCE JAN. 1-1935	PROVISION	CHARGES	FULLY DEPRECIATED DURING 1935	ADJUSTED BALANCE DEC. 31-1935
RESERVES FOR DEPRECIATION									
Buildings	$ 119,166.67	$ 43,879.60	$ -0-	$ -0-	$ 75,287.07	$ 4,248.01	$ -0-	$ -0-	$ 79,535.08
Machinery and equipment:									
Machinery	$ 255,121.63	-0-	140,126.14	475,126.01	78,015.15	13,049.53	787.57	2,442.72	87,834.39
Shop tools and fixtures	118,881.18								
Heating and power equipment	39,012.21								
Sprinkler system	-0-								
	$ 413,015.02								
Furniture and fixtures	12,761.83	-0-	2,820.54	12,873.79	2,708.58	466.00	-0-	10.50	3,164.08
Autos and trucks	5,686.87	-0-	-0-	-0-	5,686.87	460.70	-0-	4,857.00	1,290.57
TOTAL	$ 550,630.39	$ 43,879.60	$ 142,946.68	$ 487,999.80	$ 161,697.67	$ 18,224.24	$ 787.57	$ 7,310.22	$ 171,824.12

BALANCE SHEET (WITHOUT AUDIT)

THE SIMMONS METHOD HOB COMPANY - CLEVELAND

As at the close of business December 31, 1935.

ASSETS			
CASH			
On deposit			$ 30.22
AFFILIATED COMPANY			
The National Tool Company:			
Notes receivable	$ 23,003.81		
Accrued interest	2,795.31	$ 25,799.12	
Account receivable		9,274.71	35,073.83
OTHER ASSET			
Claim against closed bank			48.94
PATENTS			
At cost		$ 31,338.55	
Less reserve for amortization		30,328.00	1,010.55
DEFERRED			
Tax expense			17.50
			$ 36,181.04
LIABILITIES, CAPITAL AND DEFICIT			
ACCRUED			
Federal taxes			$ 5,570.39
CAPITAL AND DEFICIT			
CAPITAL STOCK (WITHOUT PAR VALUE)			
Authorized and issued 600 shares			
Stated capital		$ 90,000.00	
DEFICIT			
Balance December 31, 1935		59,389.35	30,610.65
			$ 36,181.04

LICENSE AGREEMENTS

THE NATIONAL TOOL COMPANY - CLEVELAND

December 31, 1935.

DATE	PRODUCT	ROYALTY	BASED ON
	WITH OLIVER G. SIMMONS		
Dec. 14-1925	Gear shaper cutter grinding machine	Note A	Note A
Mar. 31-1926	Gear grinding machine	5%	Gross sales
Oct. 10-1926	Gear checking machine	5%	Do
Mar. 15-1928	Flat face helical gear shaper cutter and improvements (Note B)	5%	Do
July 1-1929	Gear shaper machine	Note C	Do
July 1-1929	Worm wheel generating machine, cutter and improvements	Note C	Do
Aug. 14-1931	Flat face helical gear shaper cutter sharpening machine and improvements (Note B)	5%	Do
Aug. 24-1931	Helical gear angle checking machine and improvements	5%	Do
Sept.22-1931	Staggered tooth helical gear shaper cutter sharpening machine and improvements	5%	Do
July 20-1932	Steering gear sector grinding machine and improvements	5%	Do
July 20-1932	Method and multiple spindle machine for cutting hollow faced hour glass worms and improvements	5%	Do
July 20-1932	Steering gear hour glass worm grinding machine and improvements	5%	Do
Mar. 1-1935	Method and apparatus for burnishing and shaving gears	5%	Net sales
	WITH THE SIMMONS METHOD HOB COMPANY		
Dec. 14-1925	Methods of generating convolute lines in hobbing cutters, of generating taper gears, etc.	10%	Net sales
	WITH BARBER-COLEMAN COMPANY		
Feb. 1-1933	Hob grinding machine and hobs ground by machine	5%	Net sales

(Note A) Original agreement gave The National Tool Company license to manufacture and use but not to sell machines. Supplemental agreement dated May 20, 1927 licensed them to sell machines to The Hipower Tool Company on payment to Oliver G. Simmons of 5% of gross sales.

(Note B) Supplemental agreement dated December 27, 1932 allows Oilver G. Simmons to license The Fellows Gear Shaper Company to manufacture and sell cutters and machines. The National Tool Company to receive one-half of the royalties of 5% collected by Oliver G. Simmons.

(Note C) Original agreement called for royalties of 10%. Supplemental agreement dated July 20, 1932 reduced this rate to 5%.

ORGANIZATION DATA

THE NATIONAL TOOL COMPANY - CLEVELAND

December 31, 1935.

INCORPORATED

December 23, 1916 under the laws of Ohio

NATURE OF BUSINESS

Manufacturing, selling and dealing in milling cutters, special tools and machinery, tools and mechanical devices of every kind, nature and description and parts, supplies and all accessories belonging or relating thereto

CORPORATE OFFICES

11200 Madison Avenue, Cleveland, Ohio

CAPITAL STOCK

PREFERRED-7% CUMULATIVE

Authorized 5,000 shares-par value $100.00 per share
Callable on 30 days notice at $110.00 and accrued dividends

COMMON

Authorized 26,000 shares-par value $50.00 per share

DIVIDEND AND RETIREMENT PROVISIONS

Beginning March 1, 1918 the board of directors shall annually set apart out of profit and loss surplus, and pay to bank, a sum sufficient to retire at least 5% of the greatest amount of preferred stock outstanding during the past year. This provision is to be cumulative. After payment of dividends on preferred stock and after setting aside the above mentioned 5%, the remainder of net profits may be used for dividends on common stock, provided however that after payment of $130,000.00 on common stock in any one year there shall be set aside and paid to bank an additional amount equal to that paid on common, for retirement of preferred. All certificates of preferred stock retired shall be cancelled and shall not be reissued by the corporation. No dividend shall be paid on common stock when net current assets are less than 110% of the value of the preferred stock then outstanding

VOTING RIGHTS

Preferred shareholders shall be entitled to elect one-half the board of directors on failure to pay two consecutive quarterly dividends or when net current assets fall below 110% of the value of the preferred stock then outstanding. Directors so elected to serve until six months after defaults are corrected

BOARD OF DIRECTORS

W. C. Connelly, Chairman	Cleveland
W. C. Dunn	Cleveland
A. J. Hudson	Cleveland
Karl Kendig	Cleveland
S. J. Kornhauser	Cleveland
O. G. Simmons	Cleveland

OFFICERS

O. G. Simmons	President
Karl Kendig	Executive Vice President
J. S. Fleck	Vice President
S. J. Kornhauser	Secretary and Treasurer
L. M. Shafer	Assistant Secretary and Assistant Treasurer

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